

# Illinois Competitiveness: Creating a State Economic Strategy



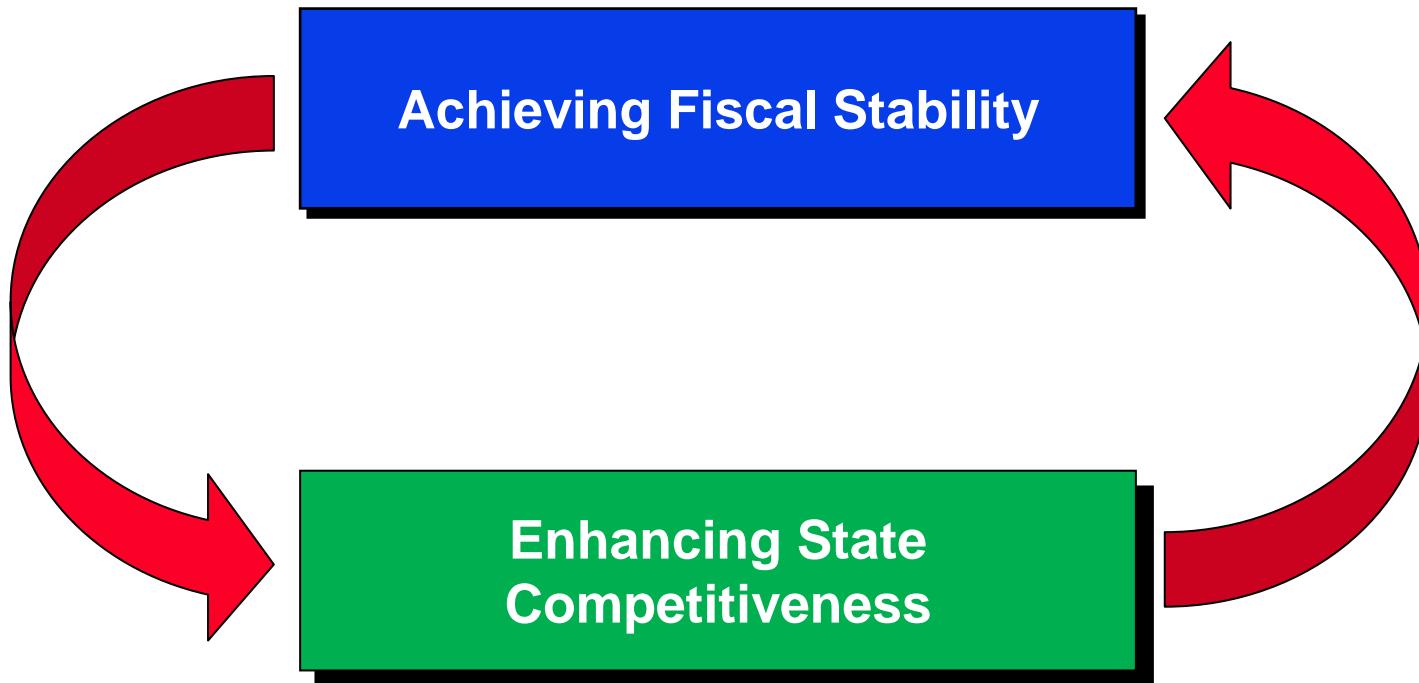
**Professor Michael E. Porter  
Harvard Business School**

*March 20, 2012*

For further material on regional competitiveness and clusters: [www.isc.hbs.edu/econ-clusters.htm](http://www.isc.hbs.edu/econ-clusters.htm)

For state economic profiles: [www.isc.hbs.edu/econ-statesregions.htm](http://www.isc.hbs.edu/econ-statesregions.htm)

# The Economic Challenge for Governors in 2012



# What is Competitiveness?

- Competitiveness is the **productivity** with which a state utilizes its human, capital, and natural endowments to create value
- Productivity determines **wages, jobs**, and the **standard of living**
- It is not **what** fields a state competes in that determines its prosperity, but **how productively** it competes

# Where Does Productivity Come From?

Businesses and government play **different but interrelated roles** in creating a productive economy

- Only **businesses** can create **jobs** and **wealth**
- **States** compete to offer the **most productive environment** for business

# Agenda

1. How is your state doing? State Performance Scorecard
2. Why? Explaining your state's performance, strengths, and weaknesses
3. Where to go from here? Action Steps

# Illinois Performance Scorecard

## Start Position

## Trend

## Current Position

### Prosperity

GDP per Capita, 2000-2010

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### Leading Clusters

by employment size, 2009  
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- Transportation and Logistics (4)
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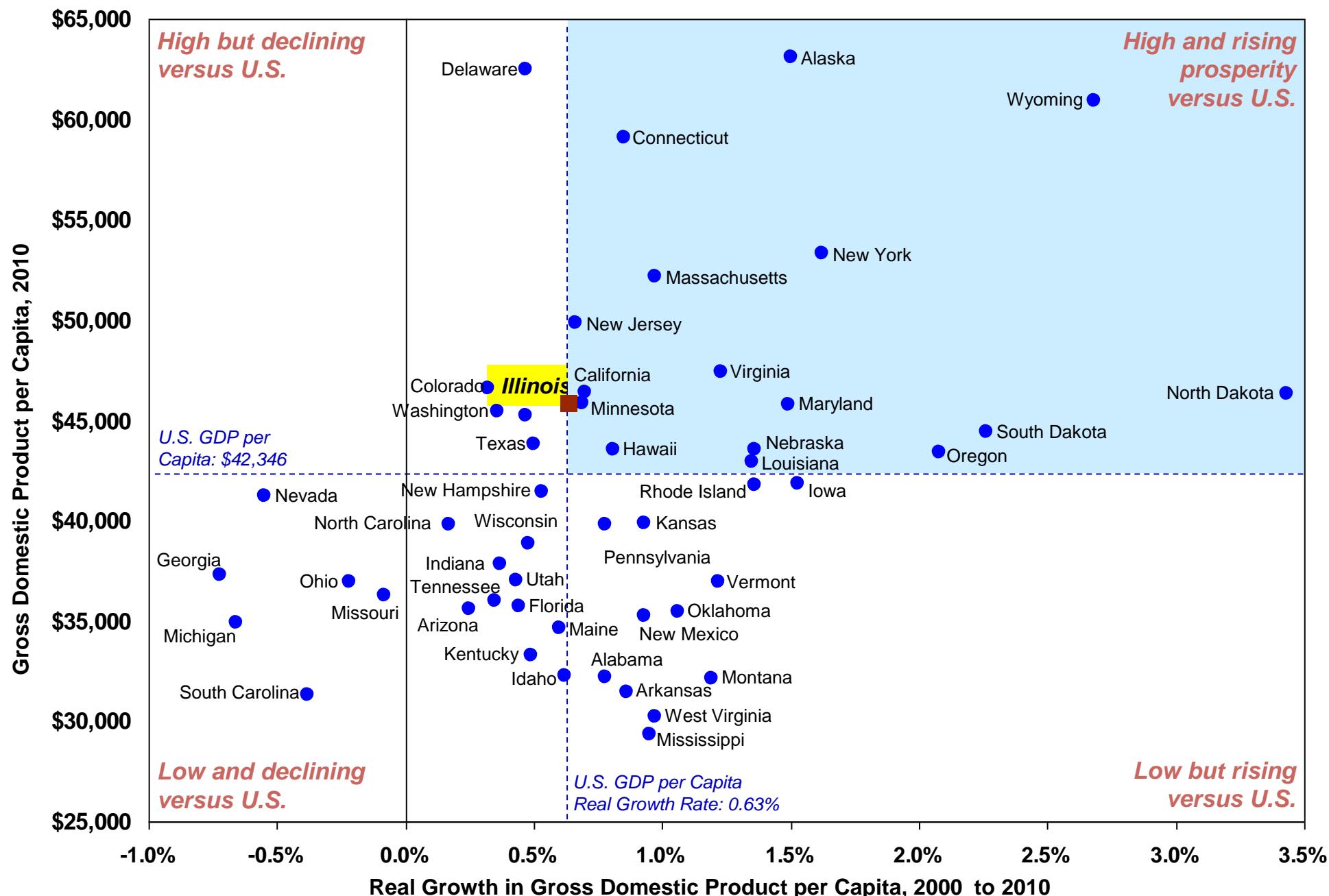
#### State Rank

|       |       |
|-------|-------|
| 1-10  | 21-30 |
| 11-20 | 31-40 |

41-50

# Comparative State Prosperity Performance

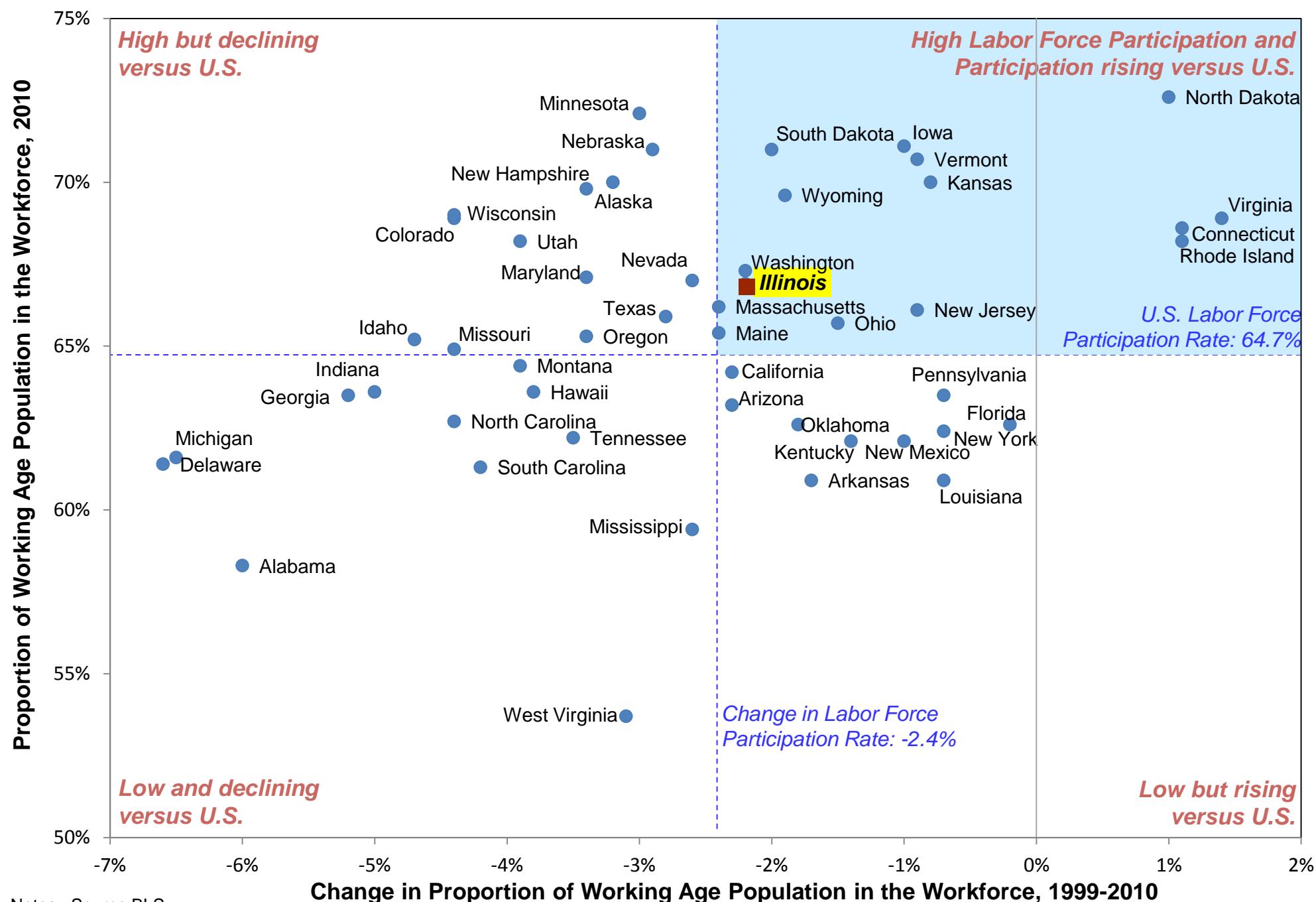
2000 - 2010



Source: BEA. Notes: GDP in real 2005 dollars. Growth rate is calculated as compound annual growth rate.

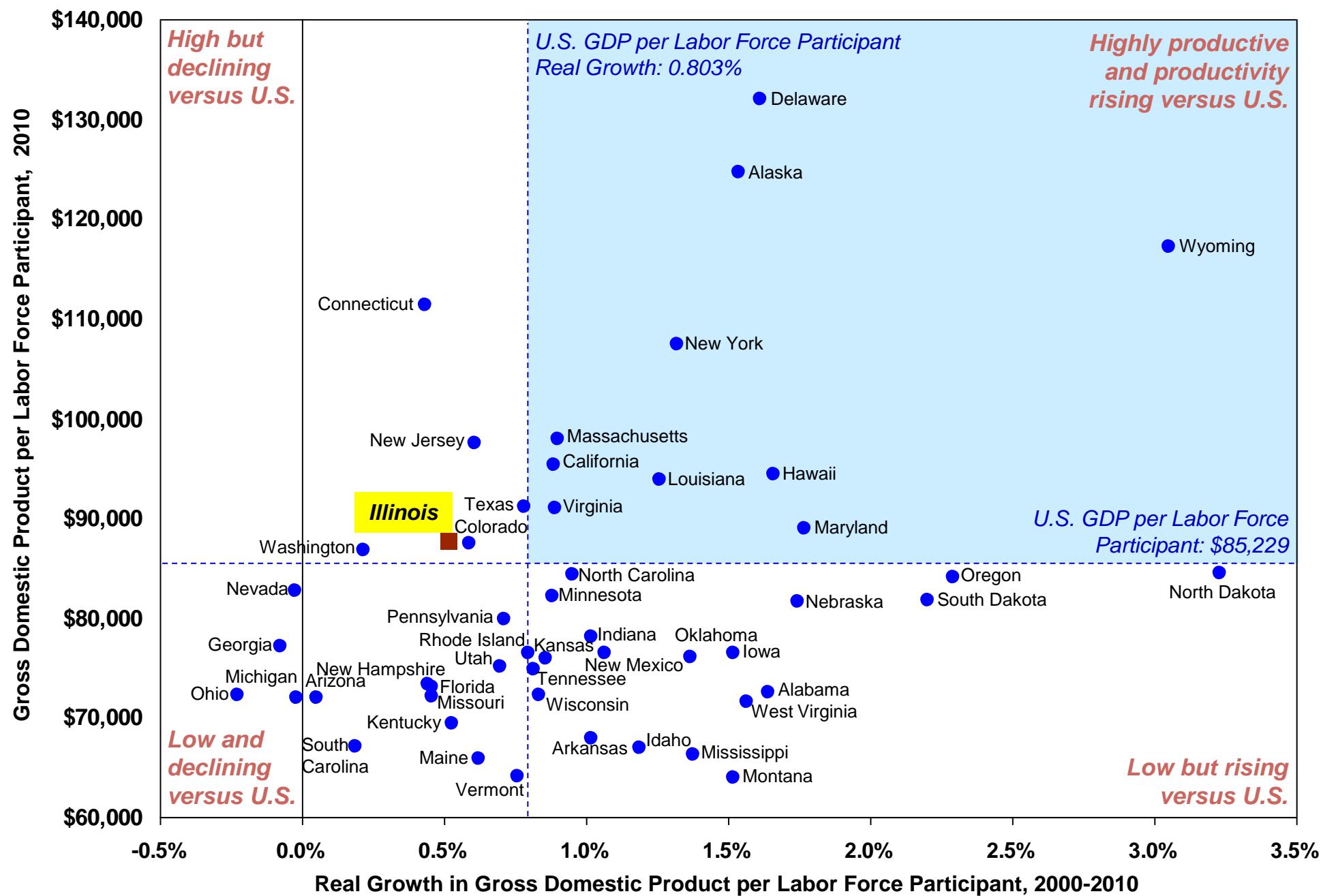
# Comparative State Labor Mobilization Performance

1999-2010



# Comparative State Labor Force Productivity Performance

2000-2010

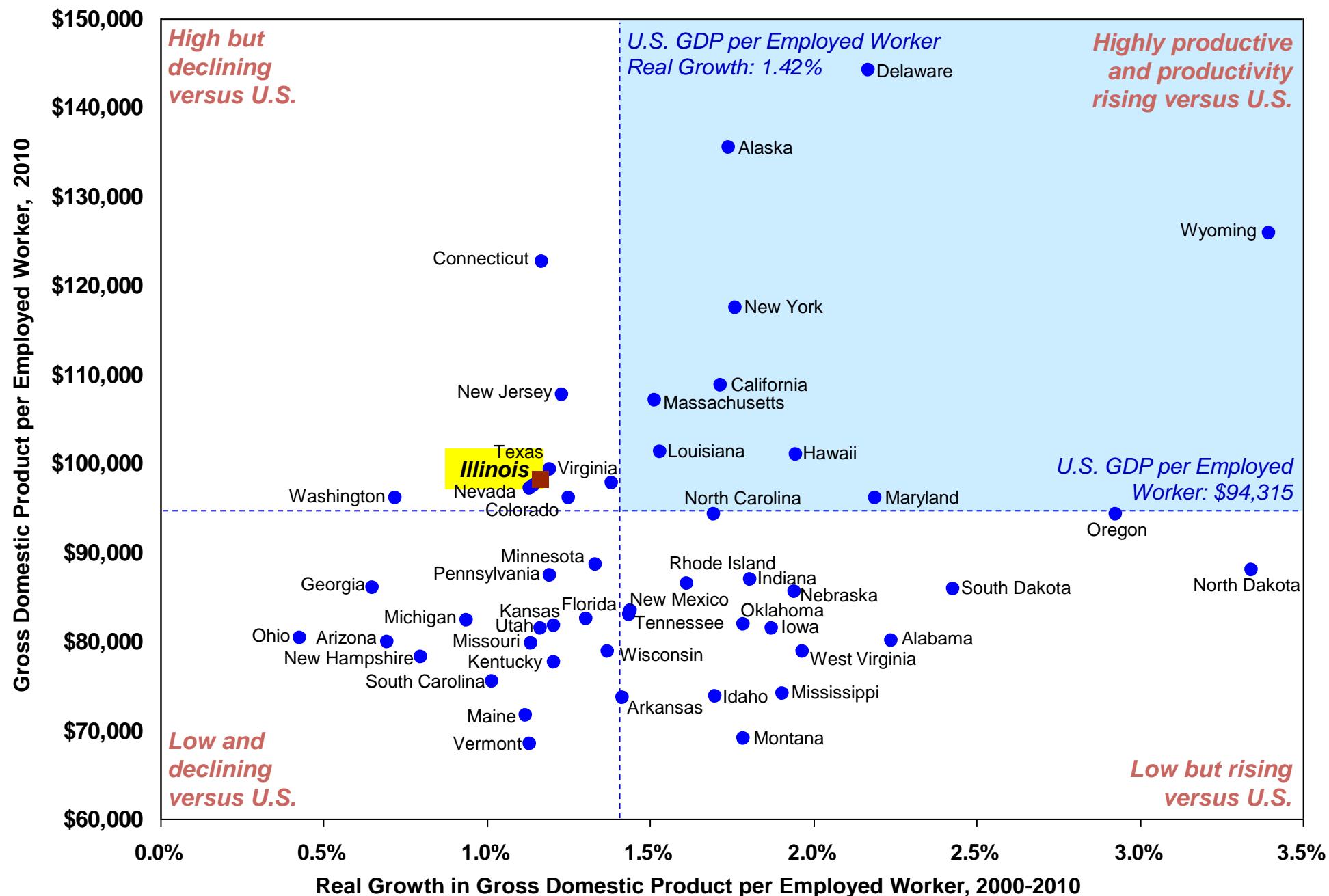


Sources: BEA, BLS. Notes: GDP in real 2005 dollars. Growth rate is calculated as compound annual growth rate.

2012 State Competitiveness – Rich Bryden

# Comparative State Employee Productivity Performance

2000-2010

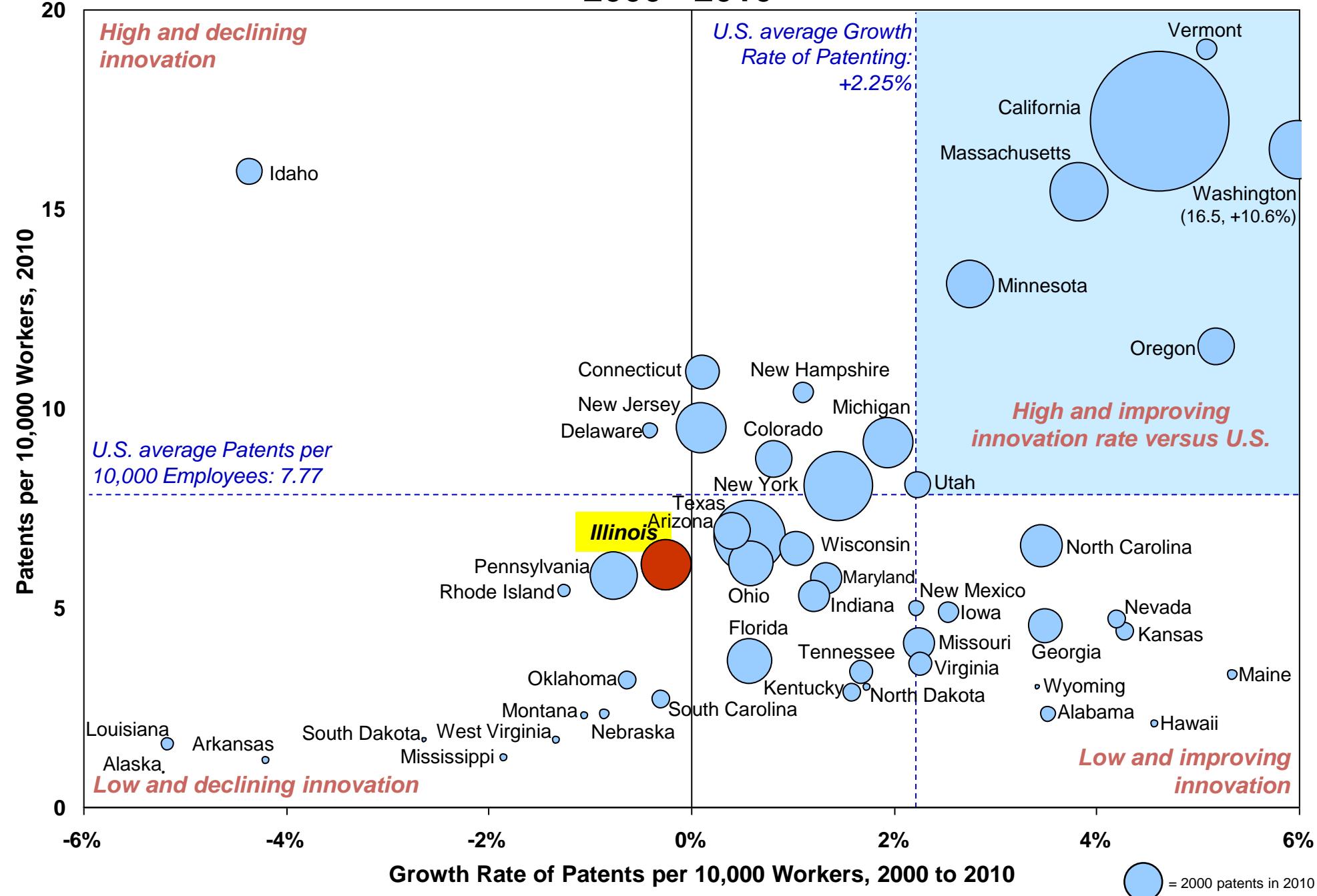


Sources: BEA, BLS. Notes: GDP in real 2005 dollars. Growth rate is calculated as compound annual growth rate.

2012 State Competitiveness – Rich Bryden

# Comparative State **Innovation** Performance

2000 - 2010



Source: USPTO utility patents, Bureau of Labor Statistics. Note: Growth rate calculated as compound annual growth rate (CAGR).

# Why? What Drives State Productivity?

**1. Quality of the  
Overall Business  
Environment**

**2. Cluster  
Development**

**3. Policy  
Coordination  
among Multiple  
Levels of  
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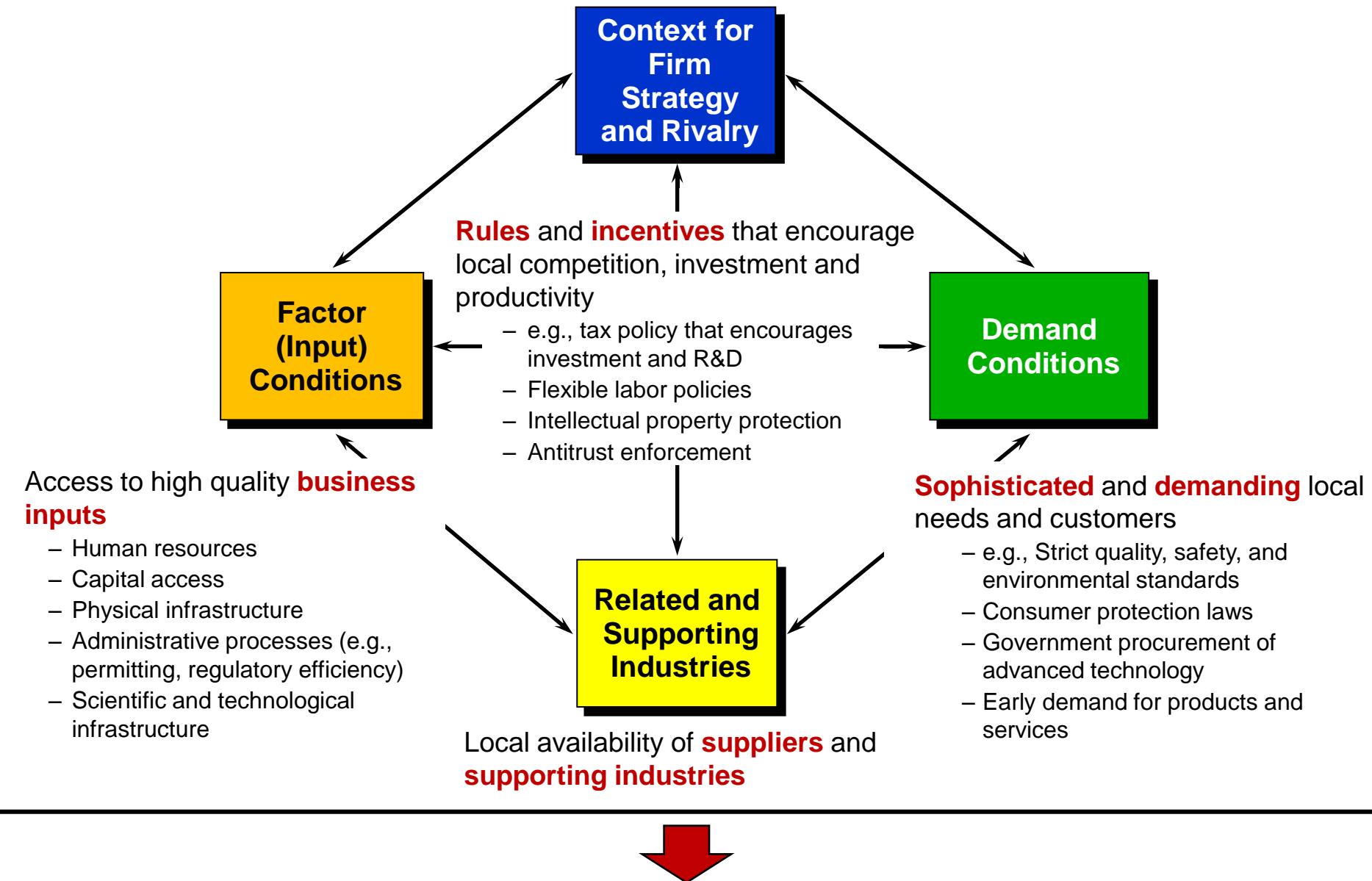
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# Quality of the Overall Business Environment



- **Many things matter** for competitiveness
- Economic development is the process of improving the business environment to enable companies **to compete in increasingly sophisticated ways**

# Improving the Business Environment

## Common Action Items

1. Simplify and speed up **regulation** and **permitting**
2. Reduce unnecessary **costs of doing business**
3. Establish **training programs** that are aligned with the needs of the state's businesses
4. Focus **infrastructure investments** on the most leveraged areas for productivity and economic growth
5. Design all policies to support **emerging growth companies**
6. Protect and enhance the state's **higher education** and **research** institutions
7. Relentlessly improve the **public education** system, the essential foundation for productivity in the long run

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# What is a Cluster?

**A geographically concentrated group of interconnected companies and associated institutions in a particular field**



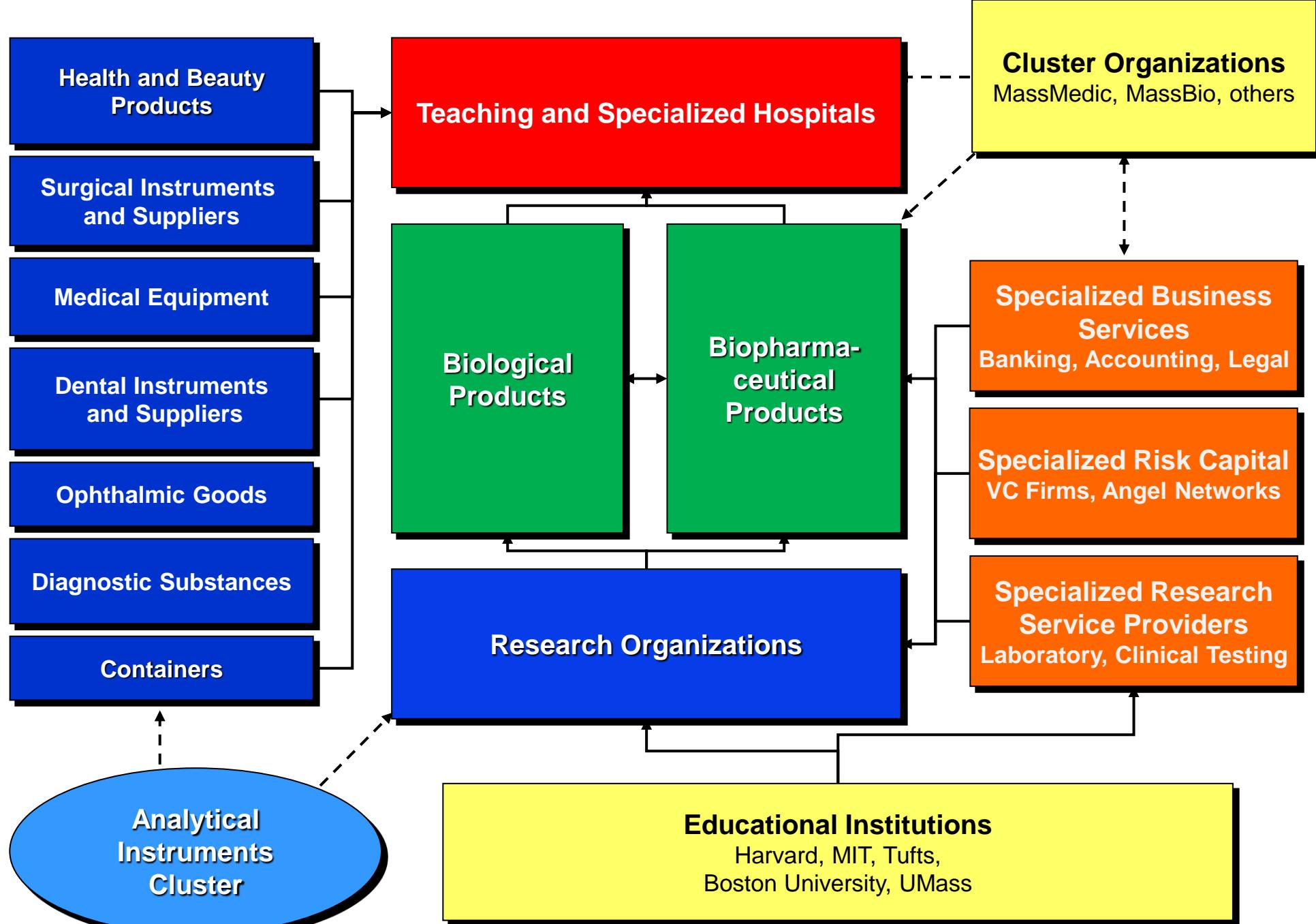
## Traded Clusters

- Compete to serve **national** and **international** markets
- Can locate anywhere
- 30% of employment

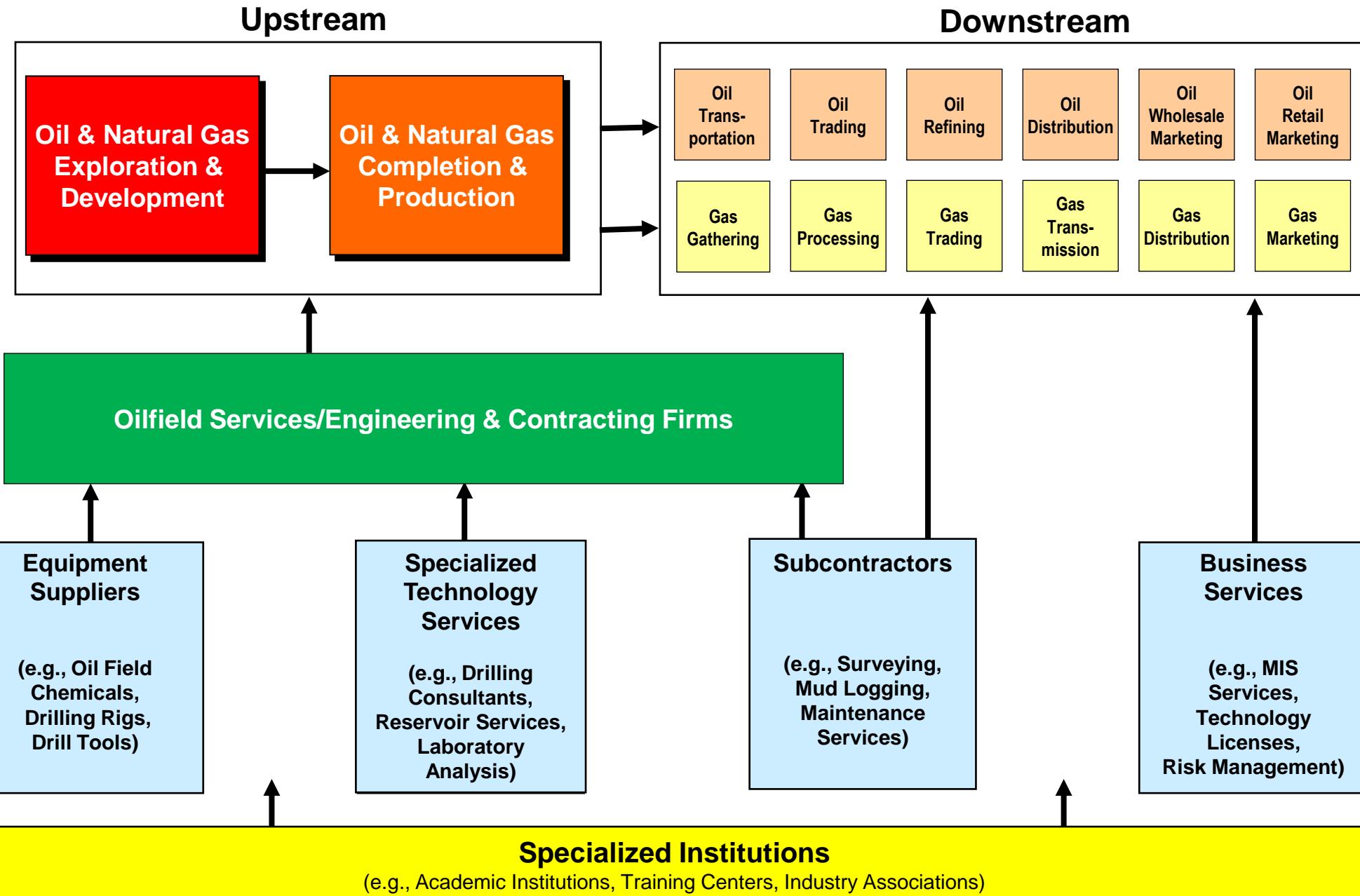
## Local Clusters

- Serve almost exclusively the **local** market
- Not directly exposed to cross-regional competition
- 70% of employment

# Example: Massachusetts Life Sciences Cluster

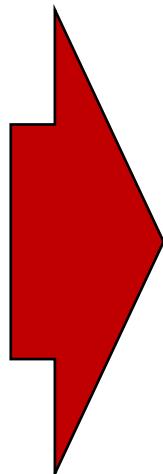


# Example: Houston Oil and Gas Cluster



# Strong Clusters Drive Regional Performance

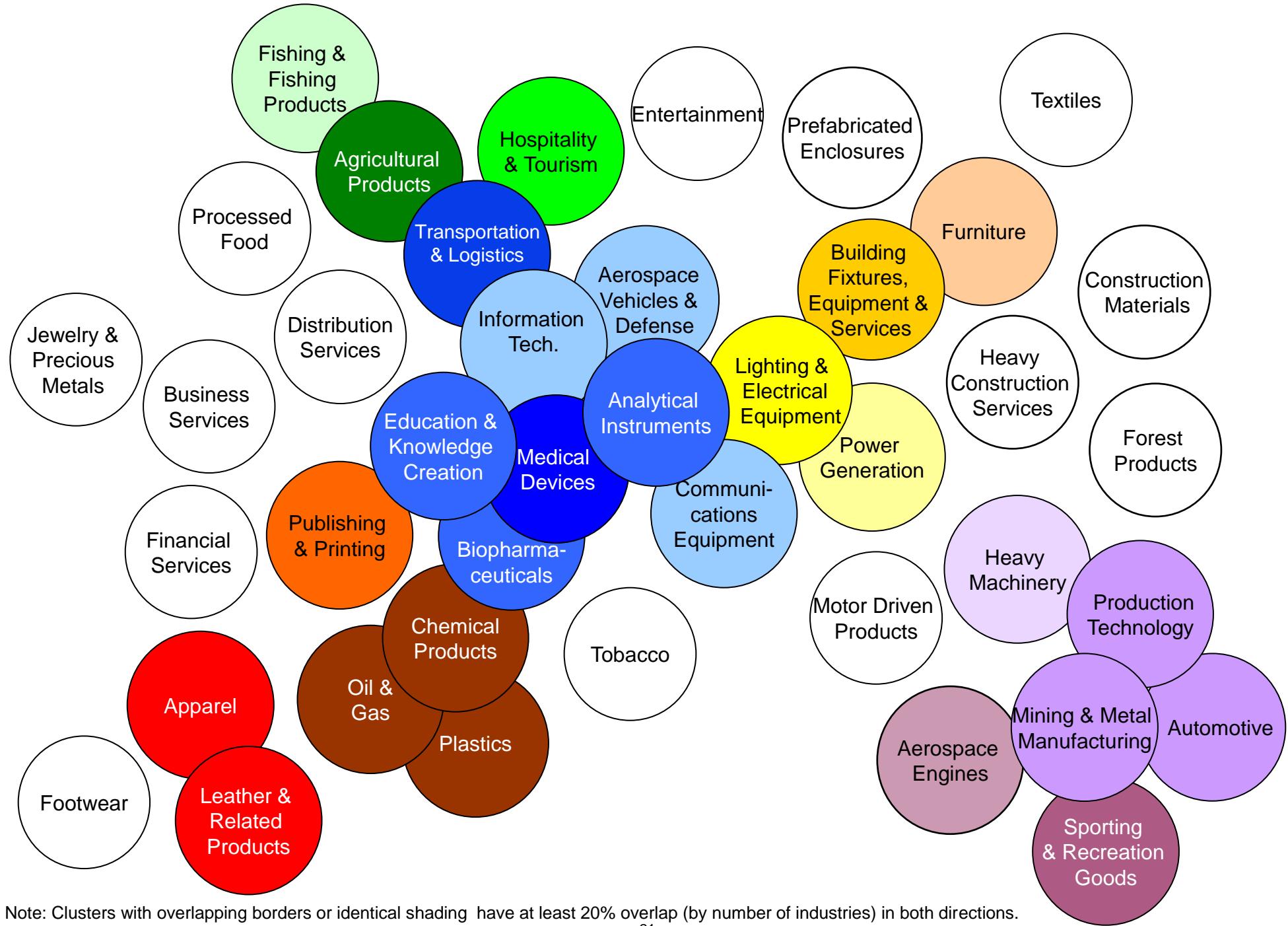
- Specialization in **strong clusters**
- **Breadth** of industries within each cluster
- Strength in **related clusters**
- Presence of a region's clusters in **neighboring regions**



- **Job** growth
- Higher **wages**
- Higher **patenting** rates
- Greater **new business** formation, growth and survival

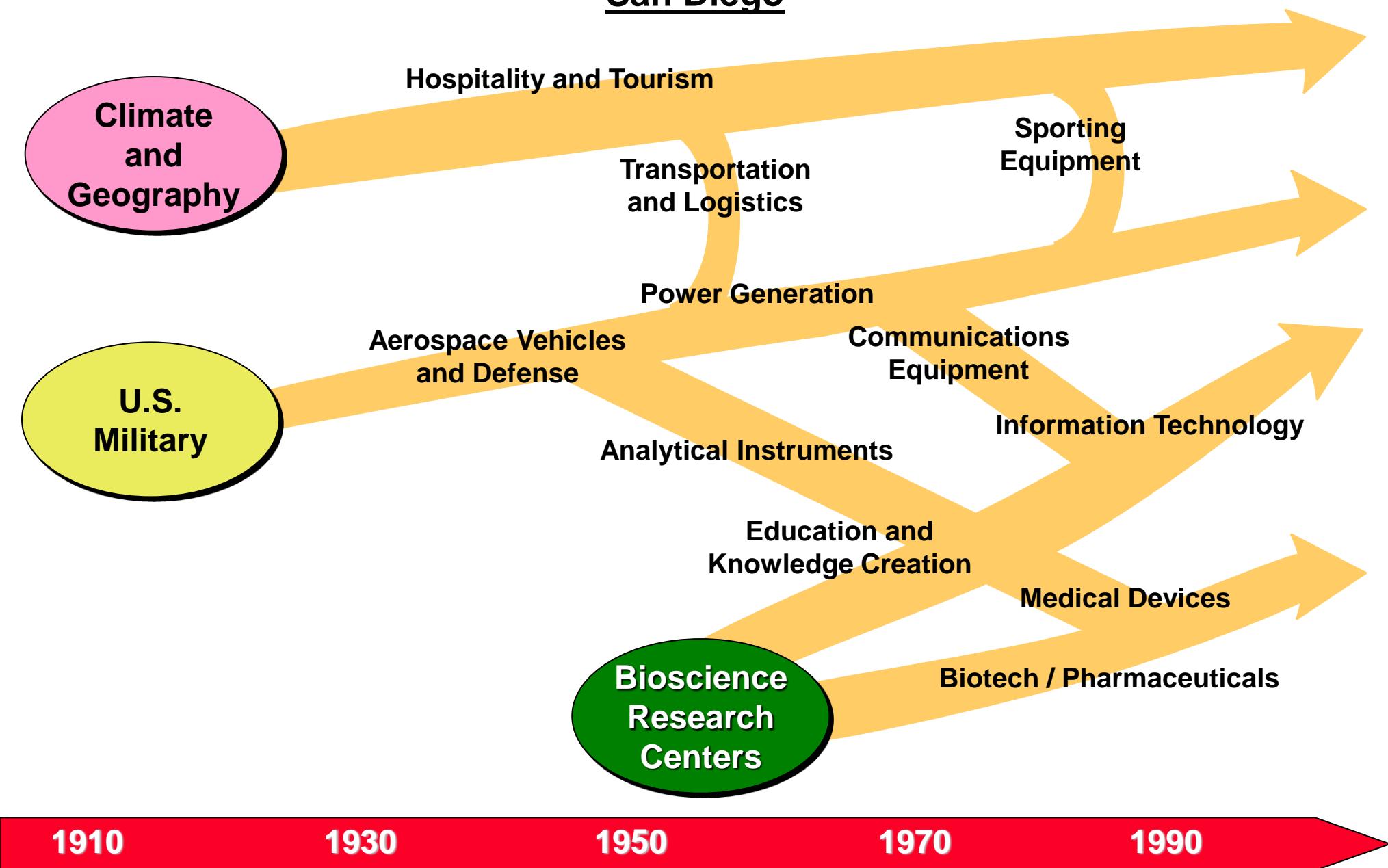
*On average, cluster strength is much more important (78.1%) than cluster mix (21.9%) in driving regional performance in the U.S.*

# Clusters and Economic Diversification

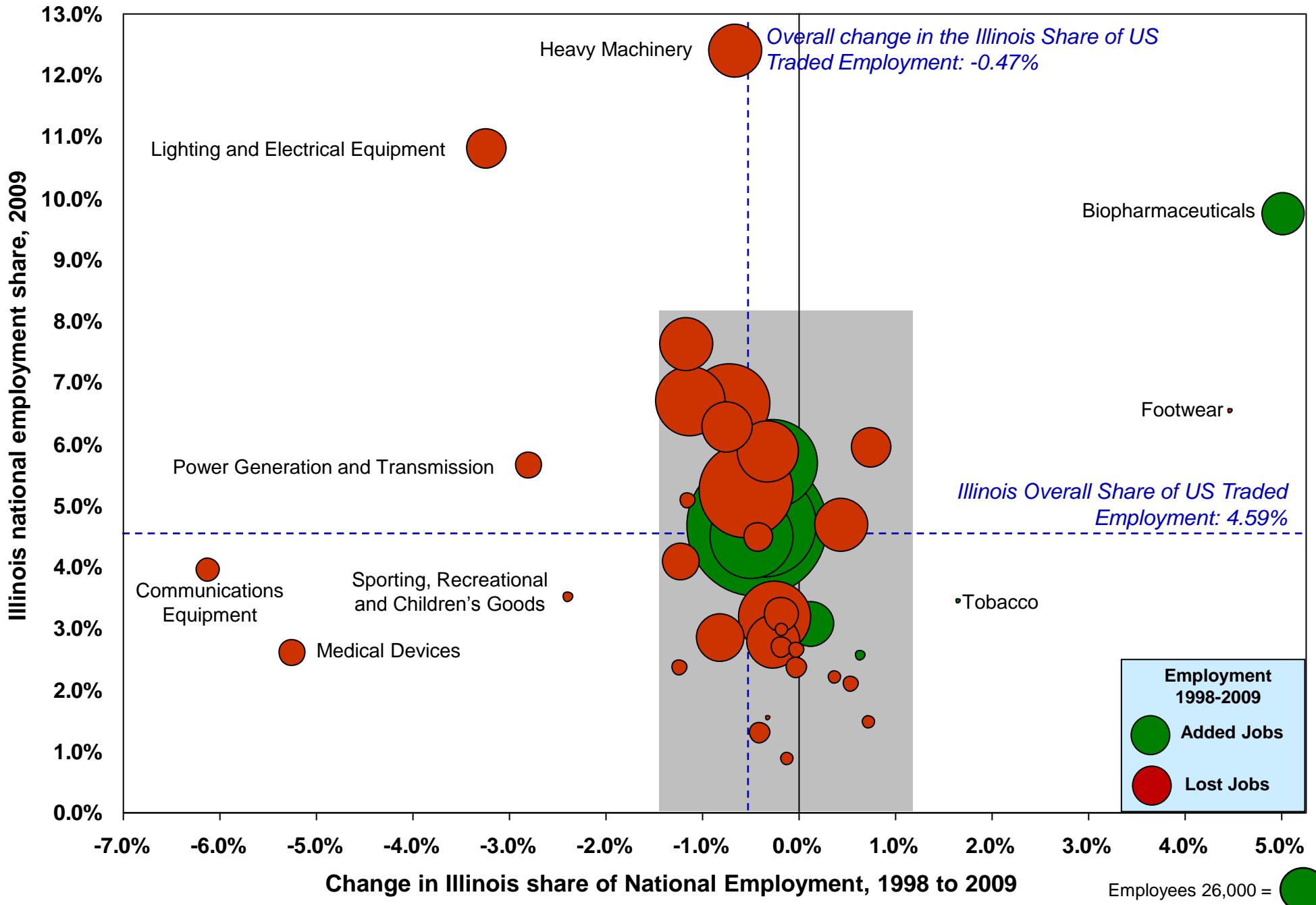


# The Evolution of Regional Economies

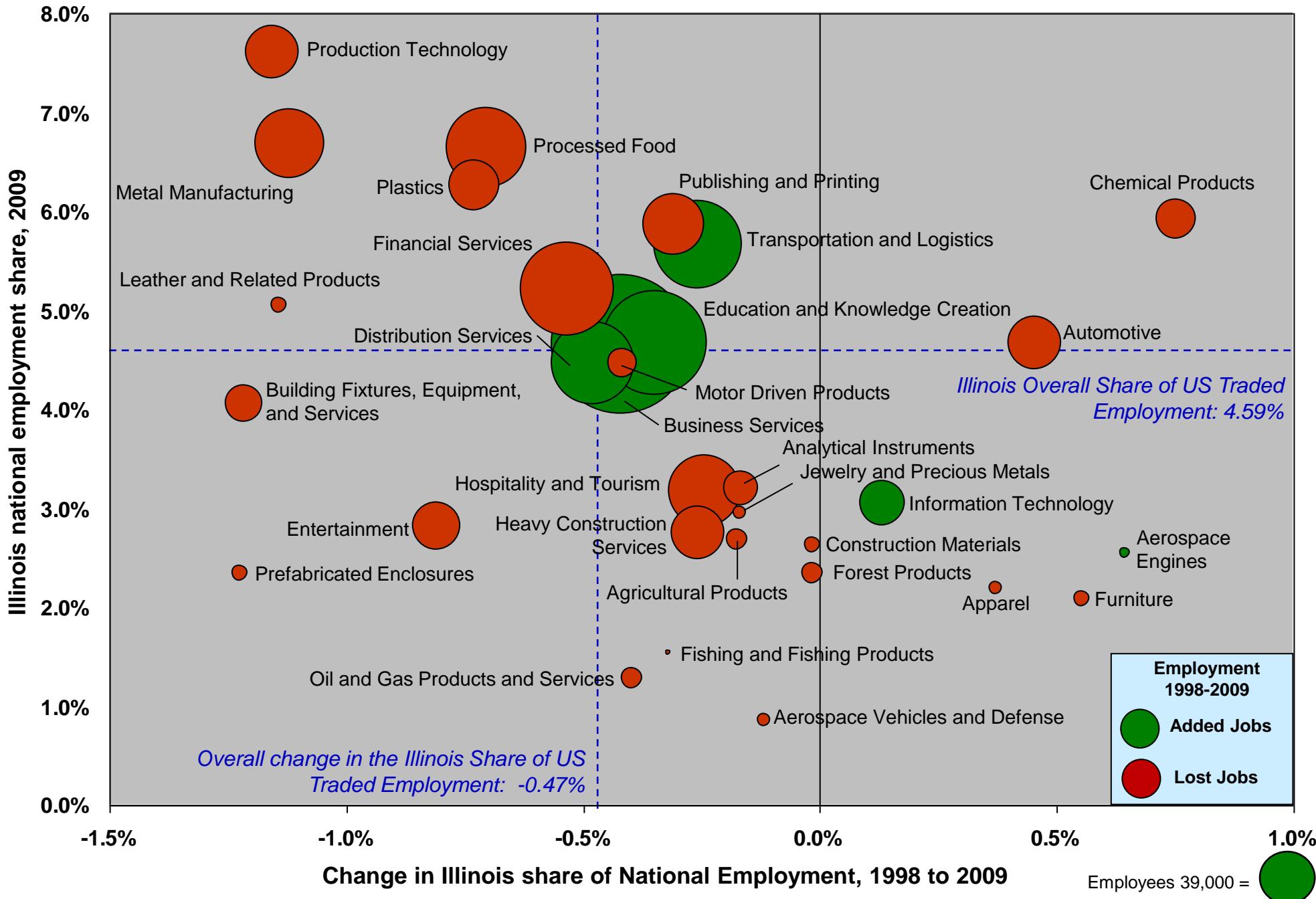
## San Diego



# Traded Cluster Composition of the Illinois Economy

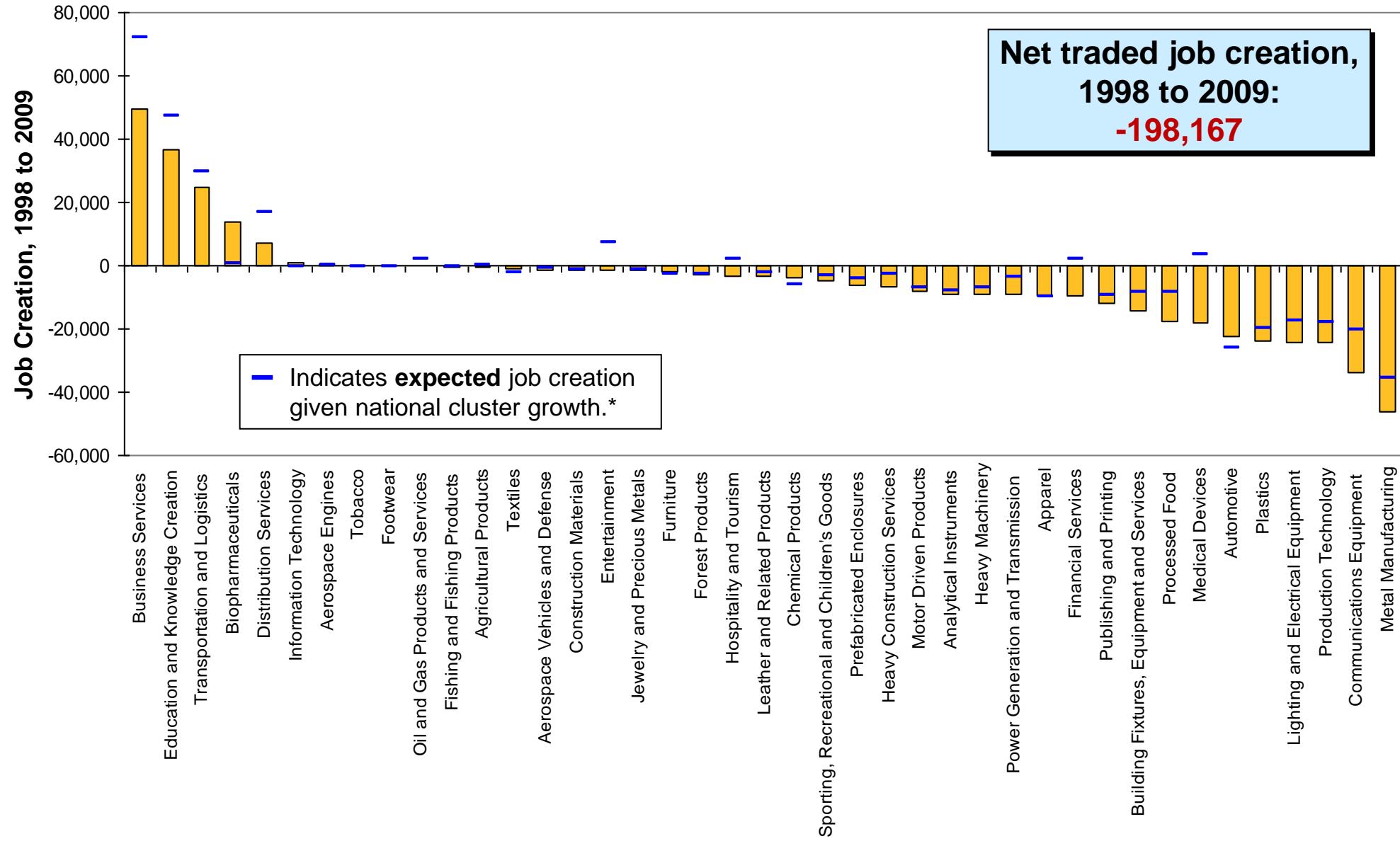


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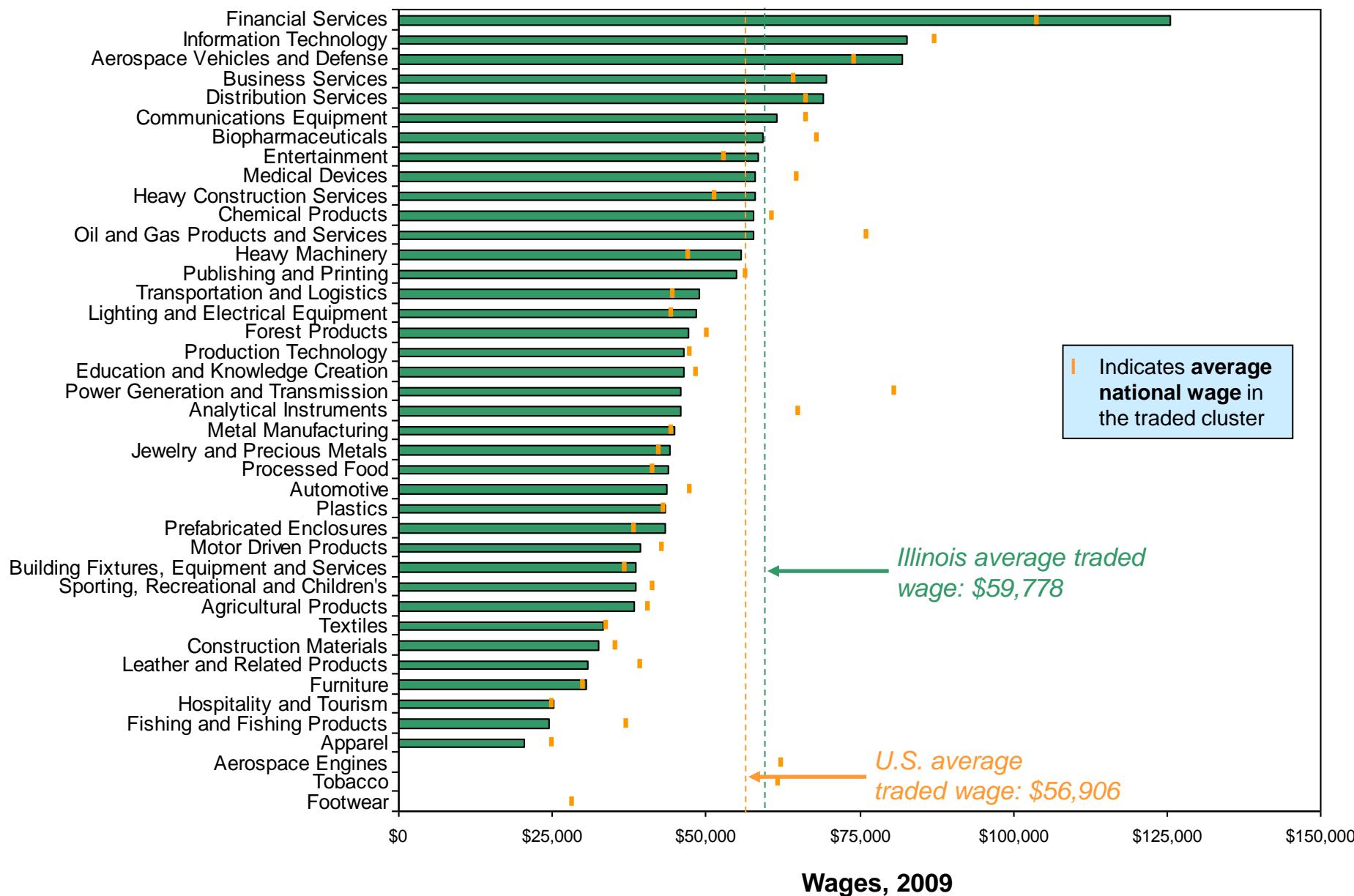
# Illinois Job Creation in Traded Clusters

## 1998 to 2009



\* Percent change in national benchmark times starting regional employment. Overall traded job creation in the state, if it matched national benchmarks, would be -50,914  
 Source: Prof. Michael E. Porter, Cluster Mapping Project, Institute for Strategy and Competitiveness, Harvard Business School; Richard Bryden, Project Director.

# Illinois Wages in Traded Clusters vs. National Benchmarks



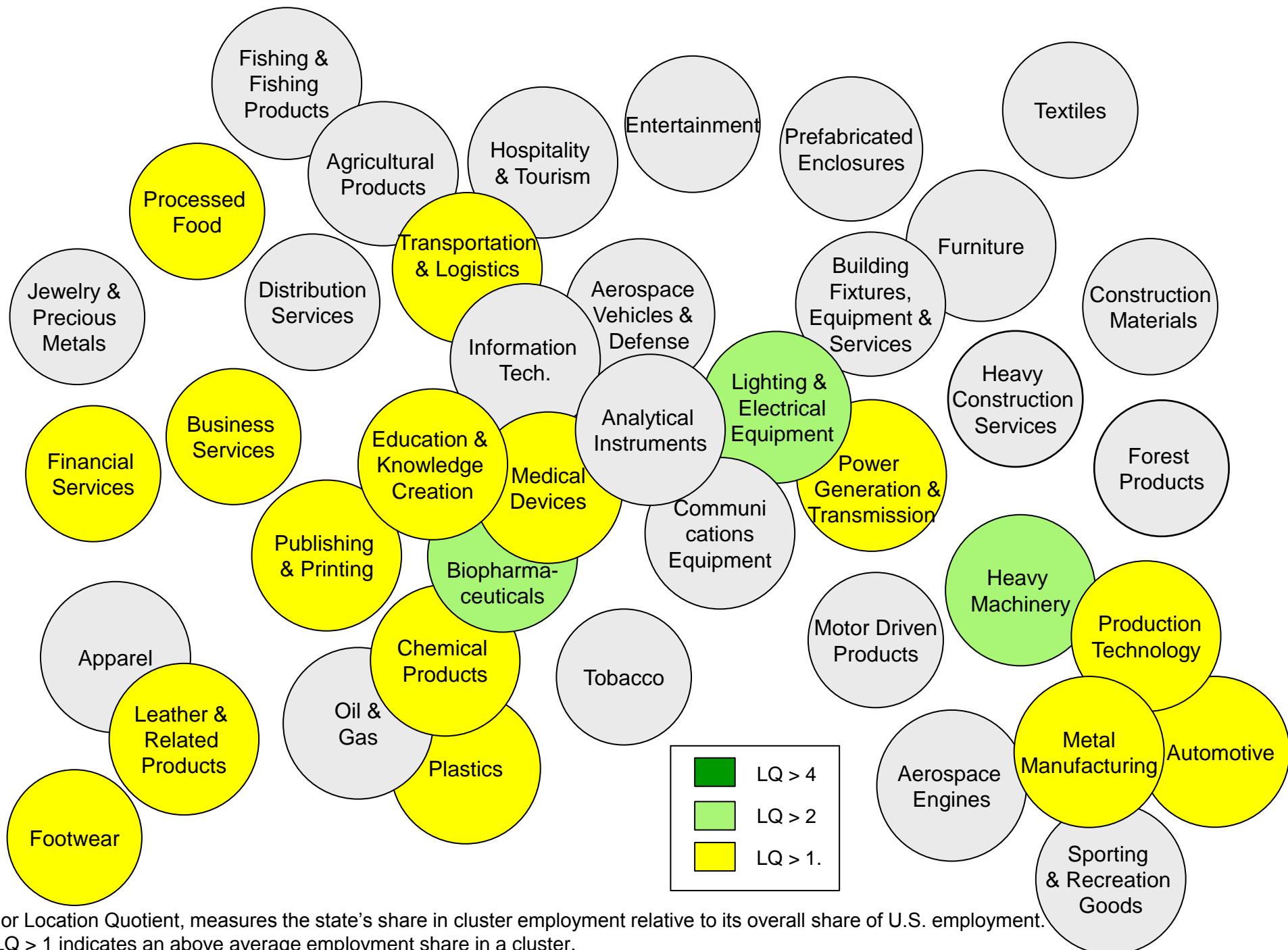
# Productivity Depends on How a State Competes, Not What Industries It Competes In

| State          | State Traded Wage versus National Average | Cluster Mix Effect | Relative Cluster Wage Effect |
|----------------|---|--------------------|------------------------------|
| Connecticut    | +27,171                                   | 7,028              | 20,142                       |
| New York       | +24,102                                   | 3,628              | 20,474                       |
| Massachusetts  | +16,169                                   | 4,391              | 11,778                       |
| New Jersey     | +13,535                                   | 3,761              | 9,774                        |
| California     | +9,573                                    | 349                | 9,224                        |
| Maryland       | +6,651                                    | 2,496              | 4,155                        |
| Washington     | +5,652                                    | 2,692              | 2,960                        |
| Virginia       | +5,319                                    | 1,617              | 3,702                        |
| Illinois       | +2,658                                    | 16                 | 2,642                        |
| Colorado       | +1,662                                    | 2,416              | -754                         |
| Texas          | +352                                      | 2,494              | -2,142                       |
| Delaware       | +164                                      | 11,060             | -10,896                      |
| Alaska         | -930                                      | -2,417             | 1,487                        |
| Pennsylvania   | -3,970                                    | -995               | -2,975                       |
| Louisiana      | -4,280                                    | 95                 | -4,375                       |
| Georgia        | -5,322                                    | -1,102             | -4,220                       |
| Minnesota      | -5,576                                    | -425               | -5,150                       |
| New Hampshire  | -6,387                                    | 374                | -6,761                       |
| Arizona        | -7,021                                    | 1,149              | -8,169                       |
| Kansas         | -7,705                                    | 2,241              | -9,946                       |
| Wyoming        | -8,057                                    | 1,040              | -9,097                       |
| Michigan       | -8,176                                    | -2,544             | -5,633                       |
| North Carolina | -9,245                                    | -4,330             | -4,915                       |
| Ohio           | -9,284                                    | -2,495             | -6,788                       |
| Rhode Island   | -9,791                                    | -2,290             | -7,501                       |

| State          | State Traded Wage versus National Average | Cluster Mix Effect | Relative Cluster Wage Effect |
|----------------|---|--------------------|------------------------------|
| Oregon         | -10,359                                   | -1,304             | -9,056                       |
| Missouri       | -10,427                                   | -1,425             | -9,002                       |
| Alabama        | -10,934                                   | -3,563             | -7,371                       |
| Florida        | -11,007                                   | -1,559             | -9,448                       |
| Wisconsin      | -11,722                                   | -3,516             | -8,206                       |
| Nebraska       | -11,777                                   | 241                | -12,018                      |
| Utah           | -11,992                                   | 2,072              | -14,064                      |
| Tennessee      | -12,172                                   | -3,156             | -9,016                       |
| Indiana        | -12,554                                   | -4,840             | -7,714                       |
| Vermont        | -13,368                                   | -1,572             | -11,796                      |
| Oklahoma       | -13,572                                   | 497                | -14,069                      |
| Nevada         | -14,277                                   | -2,365             | -11,911                      |
| North Dakota   | -14,394                                   | 1,004              | -15,397                      |
| South Carolina | -15,276                                   | -5,067             | -10,209                      |
| Arkansas       | -15,378                                   | -4,560             | -10,818                      |
| Hawaii         | -16,043                                   | -12,555            | -3,487                       |
| New Mexico     | -16,123                                   | -288               | -15,835                      |
| Kentucky       | -16,215                                   | -5,024             | -11,191                      |
| Maine          | -16,379                                   | -968               | -15,412                      |
| Iowa           | -16,606                                   | -2,721             | -13,885                      |
| West Virginia  | -16,645                                   | -3,894             | -12,751                      |
| Idaho          | -18,671                                   | -787               | -17,884                      |
| Mississippi    | -19,942                                   | -5,291             | -14,651                      |
| Montana        | -20,073                                   | -2,259             | -17,815                      |
| South Dakota   | -20,968                                   | 289                | -21,257                      |

*On average, cluster strength is much more important (78.1%) than cluster mix (21.9%) in driving regional performance in the U.S.*

# Illinois Cluster Portfolio, 2009



LQ, or Location Quotient, measures the state's share in cluster employment relative to its overall share of U.S. employment. An LQ > 1 indicates an above average employment share in a cluster.

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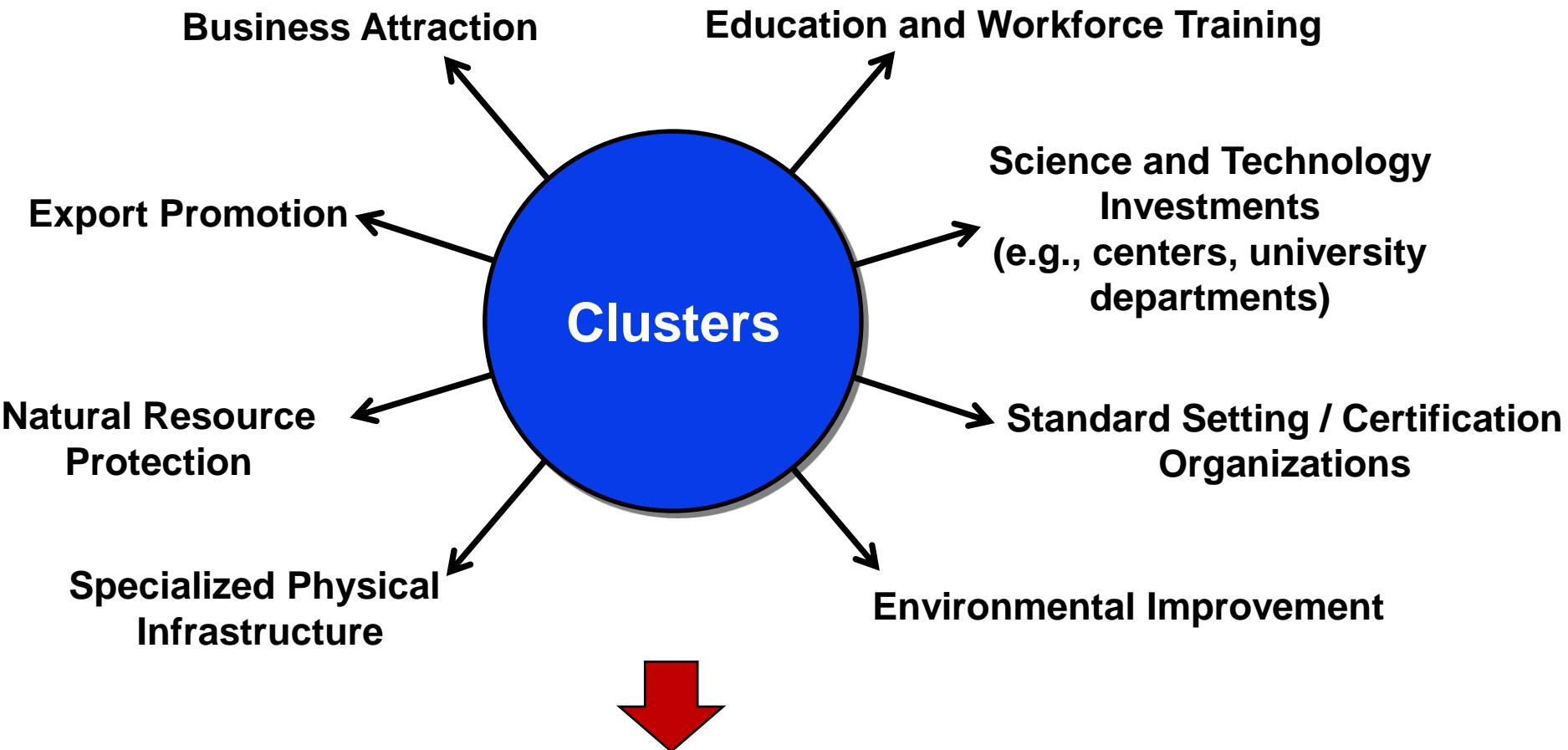


# Cluster Development

## Common Action Items

1. Build on the state's **existing and emerging clusters** rather than chase "hot" fields
2. Pursue economic diversification **within clusters** and **across related clusters**
3. Create a private sector-led **cluster upgrading program** with matching support for participating private sector cluster organizations
  - Government should **listen** and **remove obstacles** to cluster improvement
4. **Align** other state economic policies and programs with clusters

# Aligning Economic Policy and Clusters



- Clusters provide a framework for **organizing the implementation** of many public policies and public investments to achieve greater effectiveness

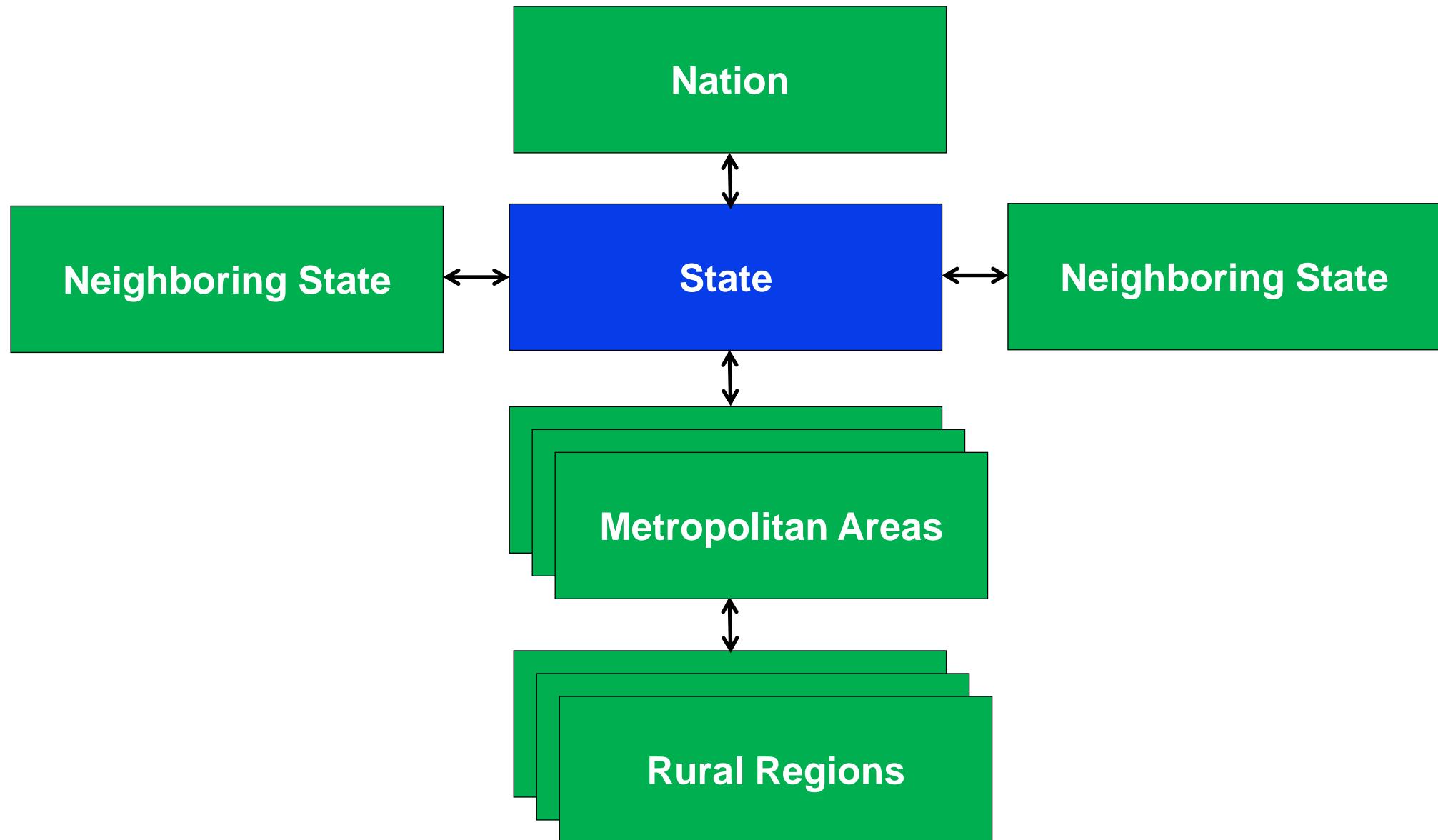
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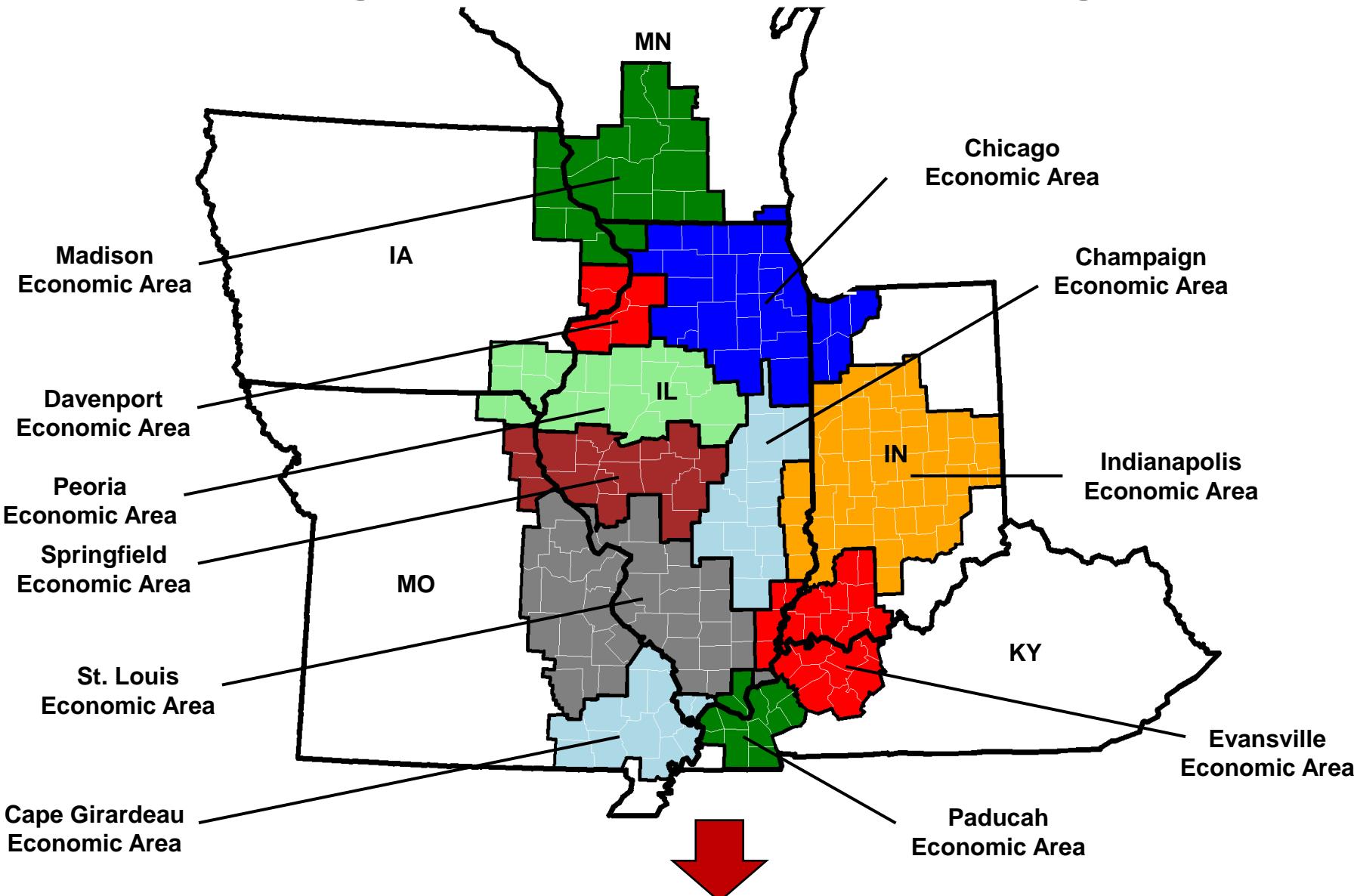
**2. Cluster  
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**3. Policy  
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# Geographic and Governmental Influences on Productivity

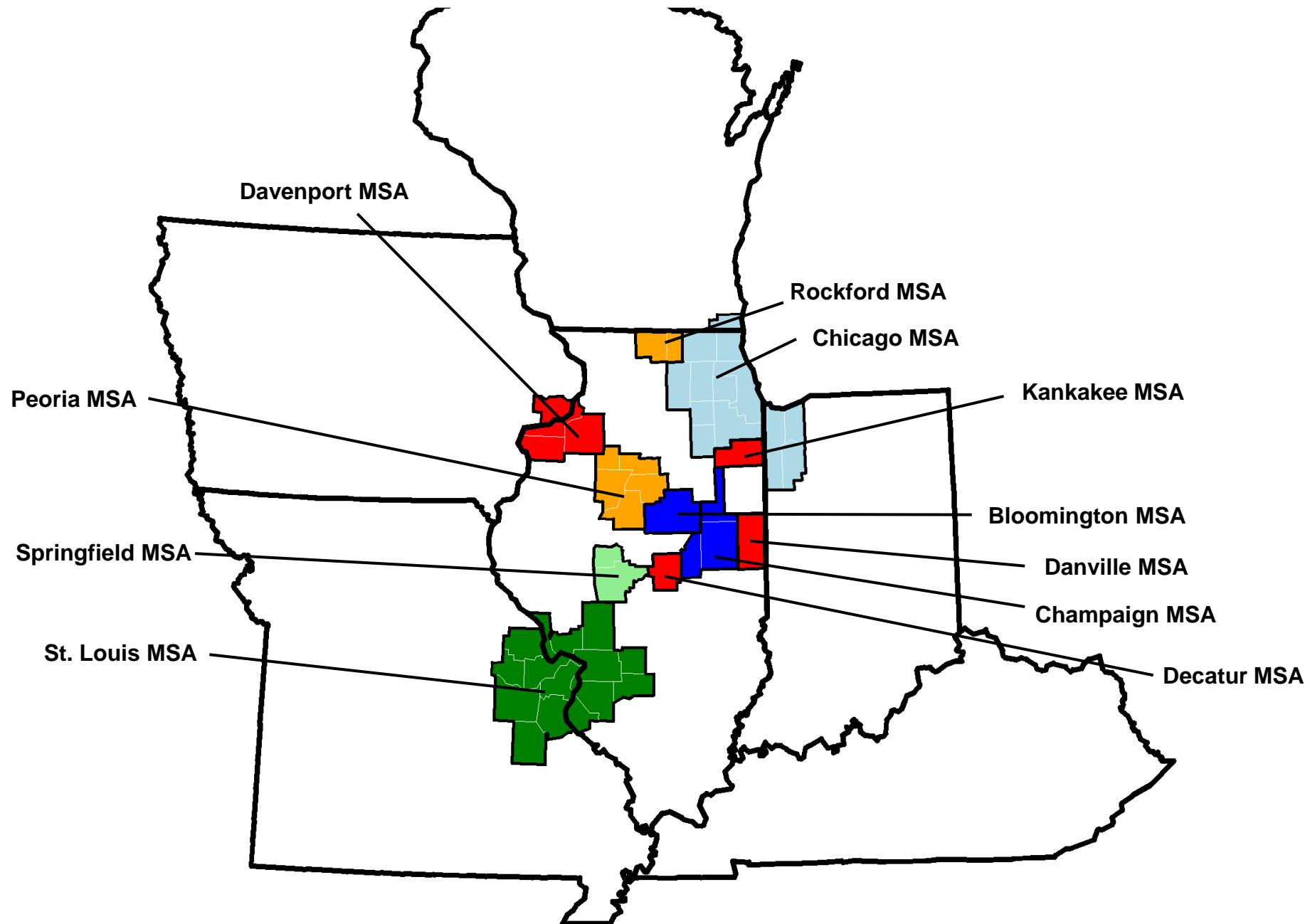


# Defining the Appropriate Economic Regions

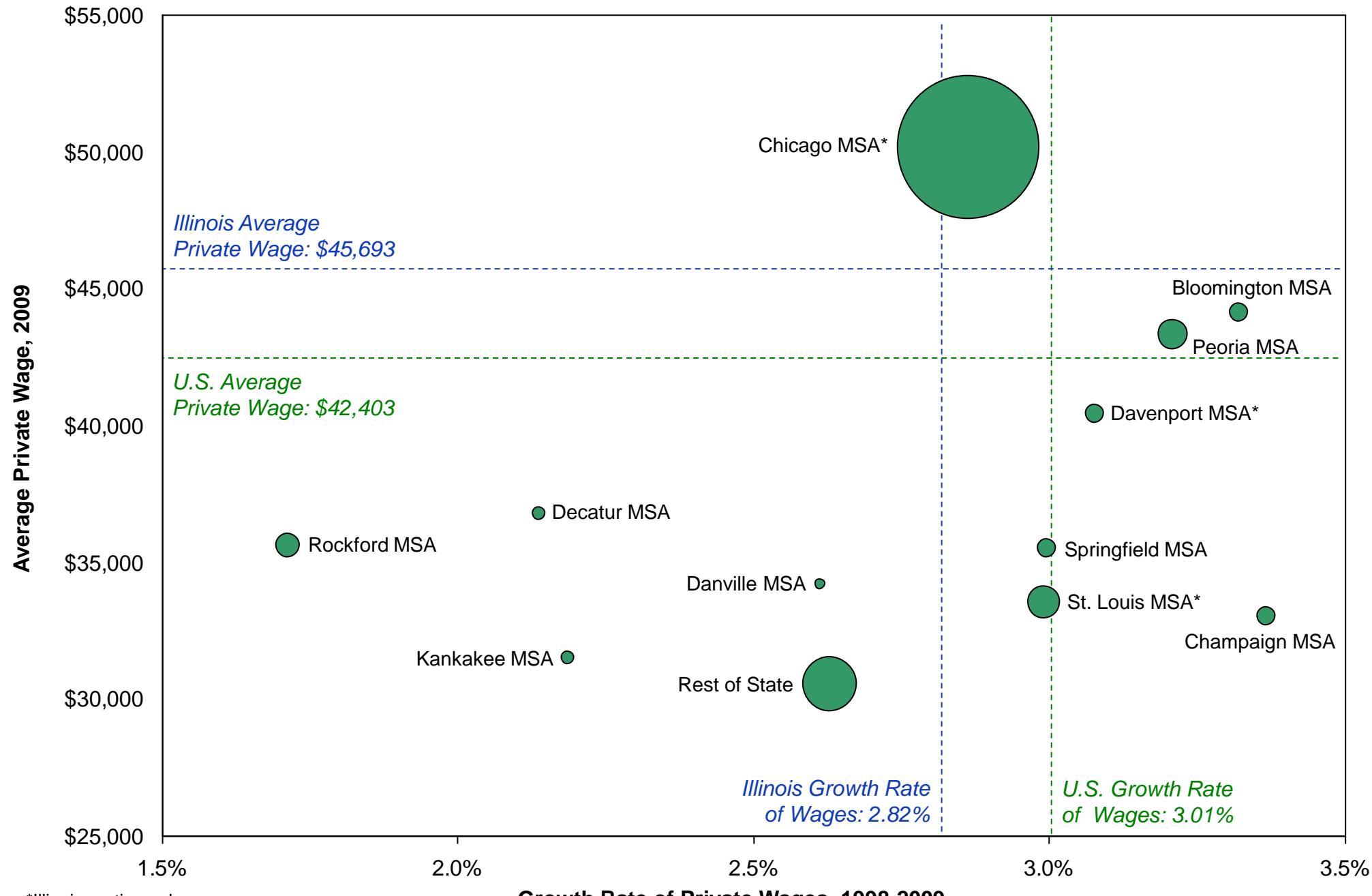


The economies of states are often an aggregation of distinct economic areas with differing circumstances

# Illinois Metropolitan Areas



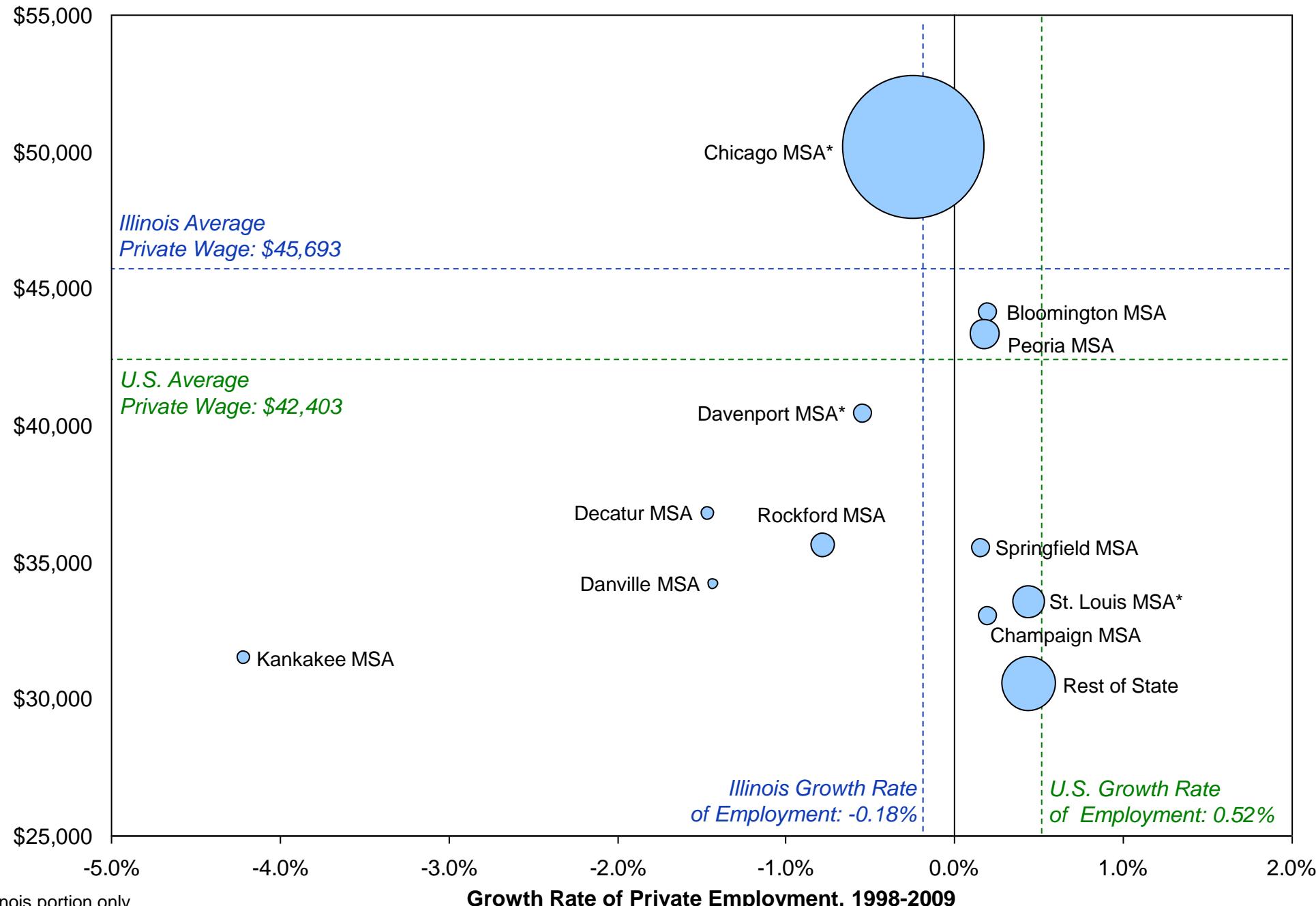
# Wage Performance in Illinois Metropolitan Areas



\*Illinois portion only

Source: Census CBP, authors' analysis. Note: "Bubble" size in chart is proportional to employment in 2009.

# Employment Performance in Illinois Metropolitan Areas

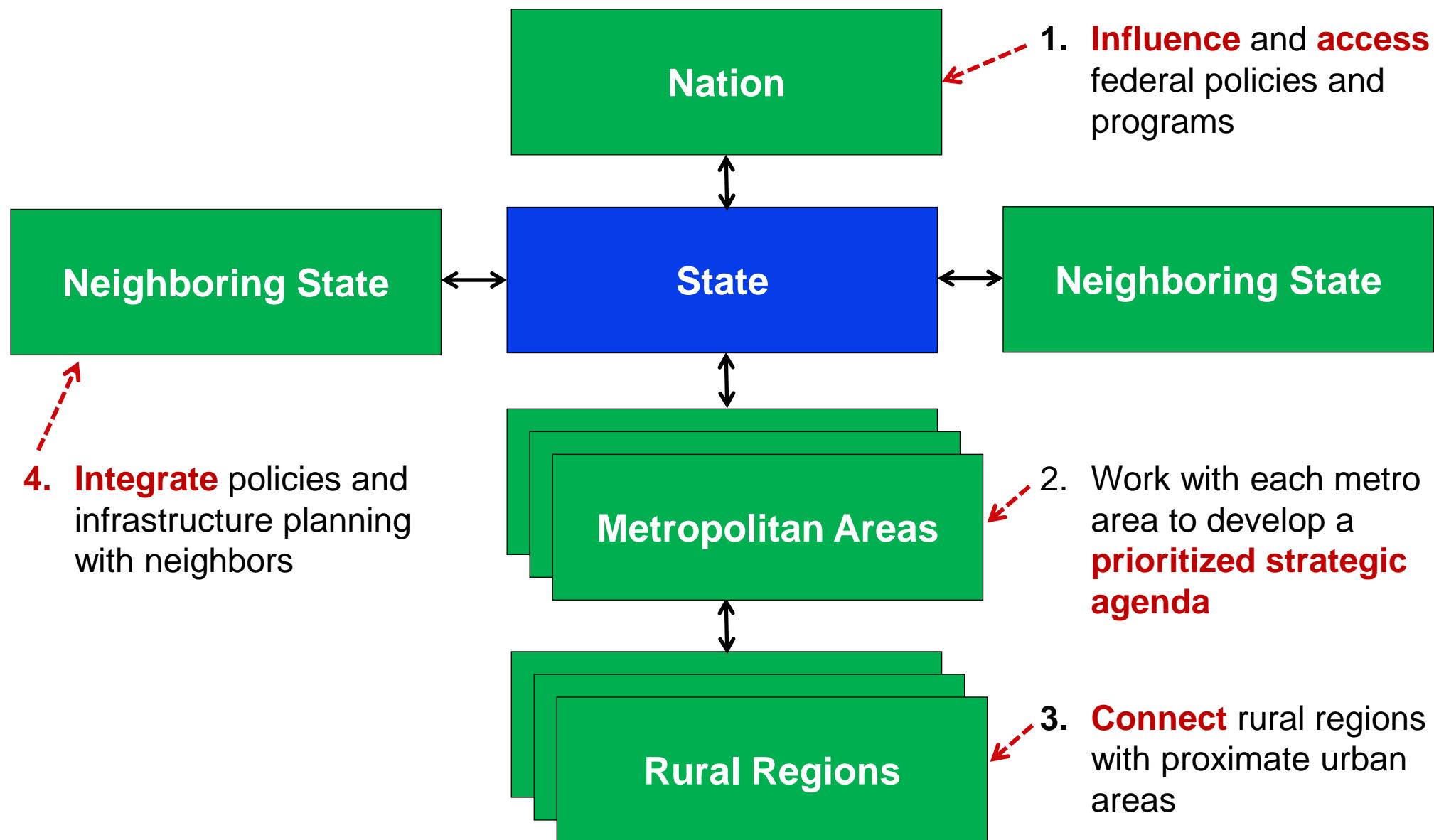


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2012 State Competitiveness – Rich Bryden

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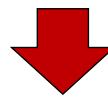


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**Biggest Action Item of All**

# Create an Economic Strategy

- What is the **distinctive competitive position** of the state or region given its location, legacy, existing strengths, and potential strengths?
  - What unique value as a business location?
  - For what types of activities and clusters?

## Define the Value Proposition



## Develop Unique Strengths

- What **elements of the business environment** can be unique strengths relative to peers/neighbors?
- What **existing and emerging clusters** represent local strengths?

## Achieve and Maintain Parity with Peers

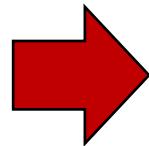
- What **weaknesses** must be addressed to remove key constraints and achieve parity with peer locations?



- Economic strategy requires **setting priorities** and **moving beyond** long lists of separate recommendations.

# How Should States Compete for Investment?

## Tactical (Zero Sum Competition)

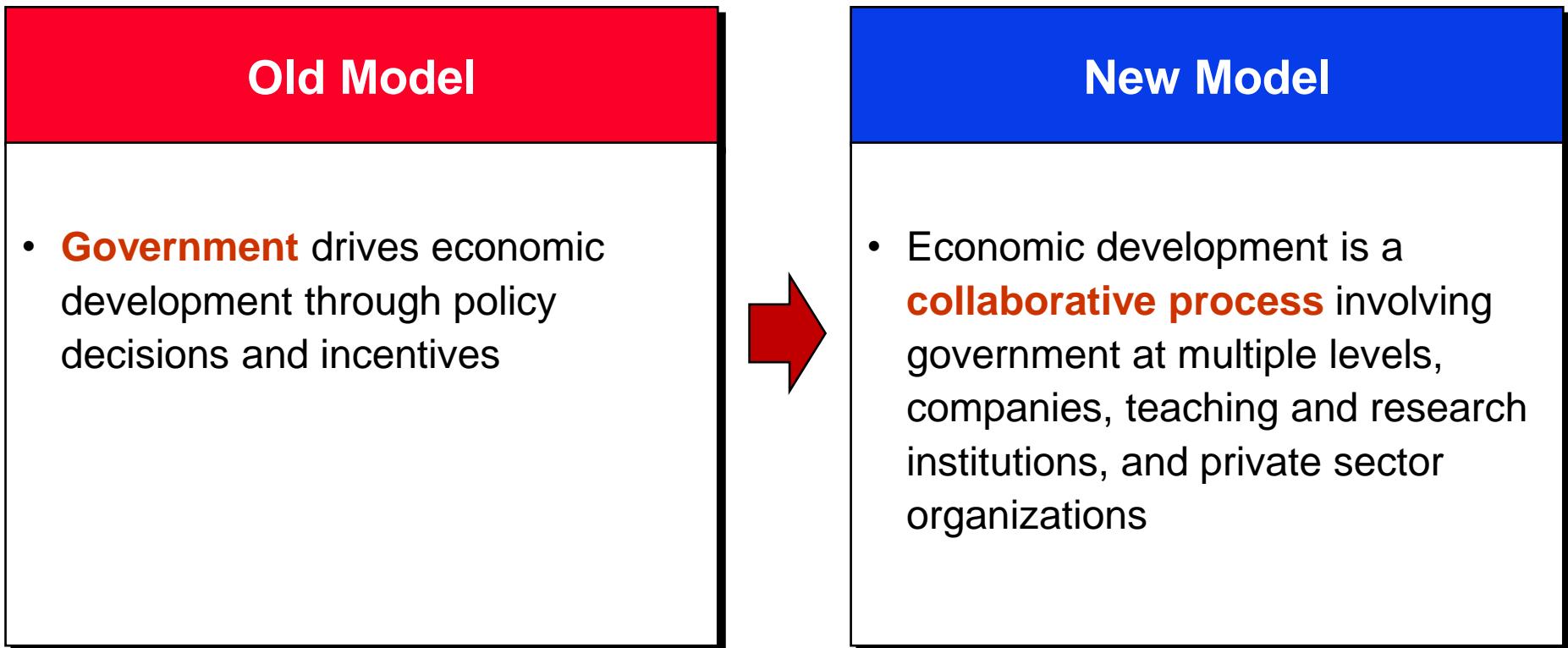


## Strategic (Positive Sum Competition)

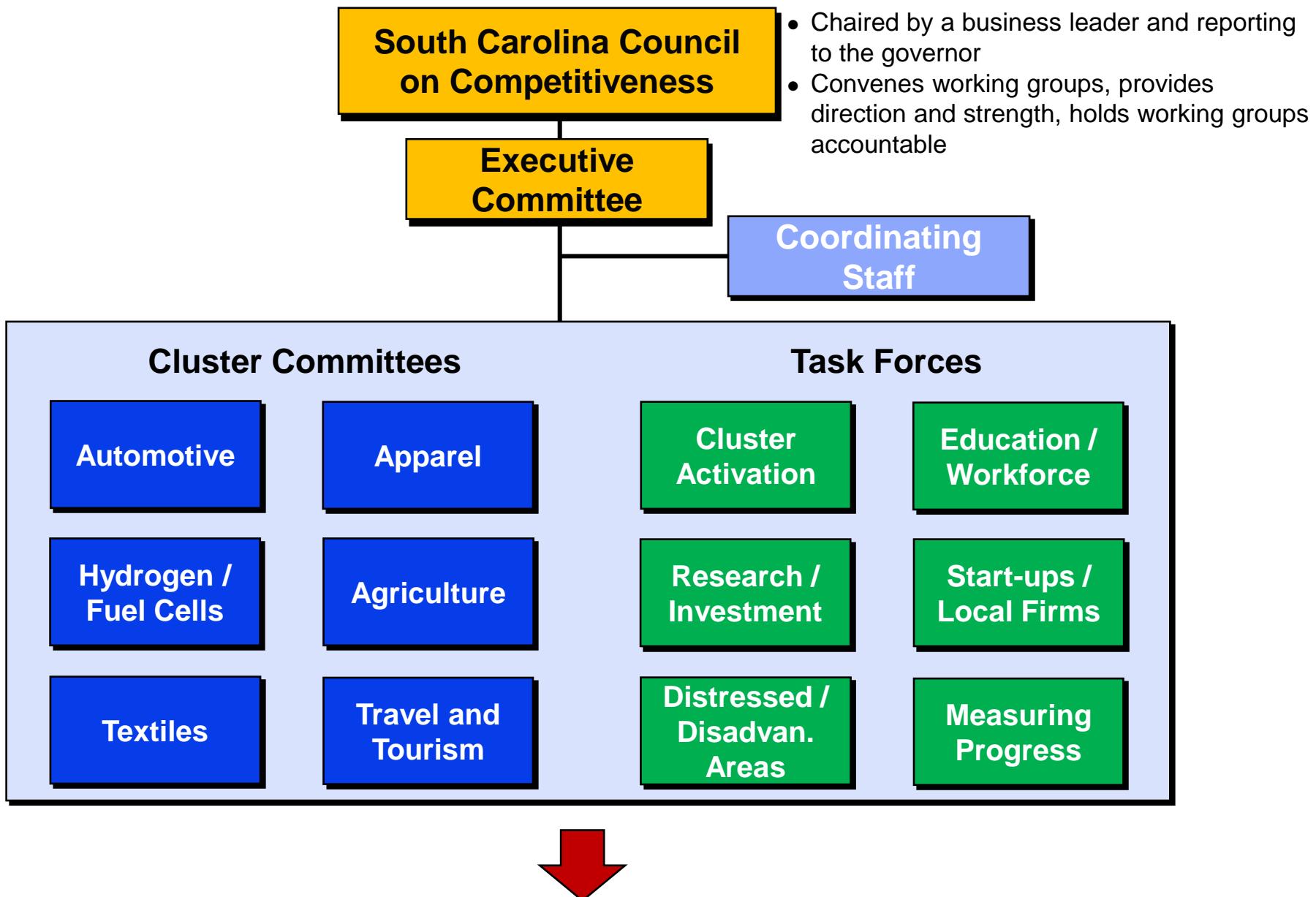
- Focus on attracting **new** investments
- Compete for **every** plant
- Offer **generalized** tax breaks
- Provide **subsidies** to lower / offset business costs
- Every city and sub-region **for itself**
- **Government** drives investment attraction
- Also support greater local investment by **existing** companies
- Reinforce areas of **specialization** and emerging cluster strength
- Provide state support for training, infrastructure, and institutions with **enduring benefits**
- Improve the **efficiency of doing business**
- Harness efficiencies and coordination **across jurisdictions**, especially with neighbors
- Government and the private sector **collaborate** to build cluster strength

# Harnessing the New Process of Economic Development

Competitiveness is the result of both **top-down** and **bottom-up processes** in which many companies and institutions take responsibility



# Example: Organizing for Economic Development



# Summary

- The goal of economic strategy is to enhance **productivity**. This is the only way to create jobs, high income, and wealth in the long run
- Improving **productivity** and **innovation** must be the guiding principles for every state policy choice
- Improving productivity does not require new public resources, but **using existing resources better**
- Improving productivity demands that governors **mobilize the private sector**, not rely on government alone
- Economic strategy is non-partisan and about getting **results**

## Next Steps

1. Reach out to your team
2. Reach out to the business community
3. Take advantage of Harvard Business School data and tools to support this effort. Go to [www.isc.hbs.edu](http://www.isc.hbs.edu).



The prosperity of the **U.S. economy** will depend more on the success of states in improving competitiveness than what happens in Washington